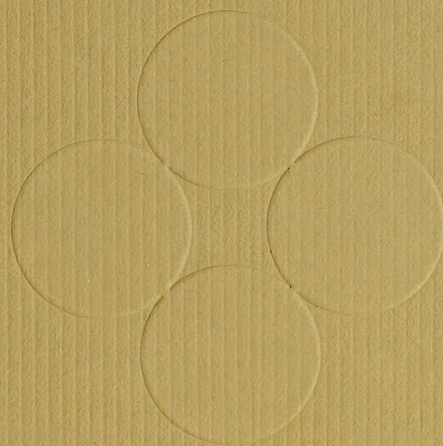


AR21

sobeys



1979
ANNUAL REPORT



Penhorn Mall staff — part of the 3,073 employees contributing to our success

"The loyalty, cooperation and effort of our employees is appreciated, as well as the continued acceptance of the Company's operations by customers, and the support of suppliers; all have enabled the Company to achieve the results reported herein."

J. M. Polley
Chairman and Chief Executive Officer

D. D. H. S.
President

HIGHLIGHTS

	1979	1978
Sales ('000)	\$307,825	\$256,389
Net earnings ('000)	\$ 1,900	\$ 1,091
Earnings per \$100 of sales	61.7¢	42.6¢
Earnings per common share	\$ 2.35	\$ 1.31
Equity per common share	\$ 18.36	\$ 16.24
Working capital ('000)	\$ 9,369	\$ 7,946
Total assets ('000)	\$ 55,635	\$ 48,444

THE COMPANY

Since 1907 Sobeys Stores has grown from a small Nova Scotia store to a major retail and wholesale grocery company, engaged in the distribution of brand name, private label and other food, fast food and non-food items.

The Company's market extends throughout the four Atlantic Provinces, into the Gaspé coast of Quebec and Southern Ontario.



Simpson's Mall store, Halifax



William M. Sobey (left) David F. Sobey (standing) and J. Skiffington Murchie

The upward trend in sales and earnings continued throughout the 1979 fiscal year with consolidated sales increasing 20% to \$307.8 million. Net earnings for the year were \$1,900,000, which represents a net profit of 61.7¢ on each \$100 of sales.

Cash flow from operations increased to \$4.5 million or \$5.81 per common share and was reinvested in the Company through \$4.2 million in additions of property and equipment. Working capital at year end increased to \$9,369,000 and resulted in a ratio of \$1.30 in current assets for each dollar of current liabilities.

The increased level of capital expenditures indicates the active addition of new locations and renovation of older stores. New retail locations opened in New Waterford and Bridgewater, Nova Scotia; Bathurst, New Brunswick; and Lewisporte, Newfoundland and a smaller unit was acquired in Grande Riviere, Quebec. Each of these units represented entries into new trading markets. Three older stores were renovated during the year and two were enlarged with major equipment additions.

The wholesale subsidiaries continue to expand into new trading areas. Shortly before year end T.R.A. Newfoundland established wholesale distribution operations throughout that province. The start up costs associated with this venture will impact the operating results of this wholesale division during the coming year. The expansion into this new trading area is consistent with the Company's aim of becoming an integrated merchandising food distributor, and further strengthens the supply network in Atlantic Canada.



One of our Take-A-Break fast food units, Historic Properties, Halifax



Pizza Hut, Downsview Mall, Lower Sackville

Fast food operations continued a positive growth pattern with volume almost double that of the prior year. This division, although a small part of the organization, now operates ten units ranging from specialty restaurants and kiosks to cafeterias in office towers and holds promising prospects for the future.



Electronic ordering of grocery requirements

Computerization plays an ever increasing role in providing timely management information and support. The Company continues to keep abreast of advances in computer technology in order to obtain maximum benefits.

Development of the Company's operating Profit Plan is a detailed process of building from the plan of each unit up to that of the whole company. This quarterly process is greatly assisted through use of a computer based financial planning system.



Distribution Centre, Stellarton

The products we merchandise pass through a complex network from producer to manufacturer and to our shelves. This process is made much more efficient through the use of electronic order entry terminals where store personnel record their merchandising requirements and transmit this data by telephone communication to our central data processing facility in Stellarton. This enables a 24 hour turn around from order entry to delivery for 75% of our retail stores which are serviced by our central Distribution Centre.

CONSOLIDATED FIVE YEAR SUMMARY

	1979	1978	1977*	1976	1975
Operations ('000)					
Sales	\$307,825	\$256,389	\$236,806	\$209,369	\$181,337
Depreciation	1,810	1,592	1,516	1,695	1,952
Earnings from operations	1,900	1,091	1,087	689	758
Cash flow from operations	4,503	2,785	2,850	2,452	3,108
Per Common Share					
Earnings from operations	2.35	1.31	1.30	.79	.88
Cash flow from operations	5.81	3.59	3.68	3.16	4.01
Dividends paid Class A	.40	.40	.40	.40	.40
Class B	.20				
Preferred	1.25	1.25	1.25	1.25	1.25
Net equity	18.36	16.24	15.20	11.20	10.83
Financial Position ('000)					
Working capital	9,369	7,946	5,914	839	1,044
Long term debt	7,352	7,272	4,651	4,461	33,659
Shareholders' equity	15,417	13,822	13,016	9,924	9,639
Total assets	55,635	48,444	39,562	37,108	70,319

*53 week period



Displaying frozen food — careful attention to every detail

During the year the Company installed an IBM 3650 scanning system in the Penhorn Mall Food Village. This is the first scanning installation in the Atlantic Provinces and testing of this system and assessment of future locations is now in process.



Scanning — a use of current technology

Energy and its rapidly increasing cost has become a focal point in expense control for the industry. Consistent with our efforts to maximize the benefits of technological advances, the Company is currently testing a store installed computer system to efficiently manage energy use. This system is projected to achieve a 20% reduction in energy costs and if successful, will warrant a full scale installation program.



An in-store full service, hot Deli

CONSOLIDATED STATEMENT OF EARNINGS *Year Ended May 5, 1979*

	1979	1978
	(In Thousands)	
Sales	\$307,825	\$256,389
Cost of sales, selling and administrative expenses	301,911	252,527
	<u>5,914</u>	<u>3,862</u>
Depreciation	1,810	1,592
Interest on long term debt	690	608
Interest on current debt	840	654
Investment income	(506)	(430)
	<u>2,834</u>	<u>2,424</u>
	3,080	1,438
Income taxes	1,128	294
	<u>1,952</u>	<u>1,144</u>
Minority interest	52	53
Net earnings for the year	<u>\$ 1,900</u>	<u>\$ 1,091</u>
Earnings per common share	<u>\$ 2.35</u>	<u>\$ 1.31</u>
Cash flow per common share	<u>\$ 5.81</u>	<u>\$ 3.59</u>

The Company has actively developed a broad range of private label products. These include 144 items listed under the Sobeys label and 26 "No Name" products consisting of both food and non-food items from canned vegetables, cookies and ice cream through laundry detergent, garbage bags and dog food.



Private label — our fast growing family of products

CONSOLIDATED STATEMENT OF RETAINED EARNINGS *Year Ended May 5, 1979*

	1979	1978
	(In Thousands)	
Balance, beginning of year	\$10,150	\$ 9,344
Net earnings for the year	1,900	1,091
Other adjustments	77	
	<u>12,127</u>	<u>10,435</u>
Dividends paid		
Preference shares	76	77
Class "A" common shares	208	208
Class "B" common shares	51	
Redemption of preference shares	47	
	<u>382</u>	<u>285</u>
Balance, end of year	<u><u>\$11,745</u></u>	<u><u>\$10,150</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION *Year Ended May 5, 1979*

	1979	1978
	(In Thousands)	
Source of working capital		
Cash flow from operations consisting of		
Net earnings for the year	\$1,900	\$1,091
Depreciation	1,810	1,592
Deferred income taxes	524	(66)
Minority interest	43	42
Other	226	126
	<u>4,503</u>	<u>2,785</u>
Reduction in investments and advances	1,354	
Issue of long term debt	408	3,078
Other adjustments	77	
	<u>6,342</u>	<u>5,863</u>
Use of working capital		
Property, equipment and other assets acquired	4,209	1,929
Repayment of long term debt		
(including current maturities)	328	457
Investments and advances		1,160
Dividends paid	335	285
Redemption of preference shares	47	
	<u>4,919</u>	<u>3,831</u>
Net working capital provided during year	1,423	2,032
Working capital, beginning of year	7,946	5,914
Working capital, end of year	<u><u>\$9,369</u></u>	<u><u>\$7,946</u></u>

CONSOLIDATED BALANCE SHEET *May 5, 1979*

Assets	1979	1978
	(In Thousands)	
<i>Current</i>		
Cash	\$ 3,241	\$ 2,702
Marketable securities, (Note 1)	12,807	10,389
Receivables	4,435	3,864
Inventories (Note 1)	18,735	15,769
Prepaid expenses	1,355	1,477
	<u>40,573</u>	<u>34,201</u>
<i>Investments and advances (Note 1)</i>	<u>812</u>	<u>2,332</u>
 <i>Property and equipment, at cost</i>		
Land	609	461
Buildings and facilities	4,595	3,991
Equipment	15,952	13,426
Leasehold improvements	2,980	2,895
	<u>24,136</u>	<u>20,773</u>
 Less: Accumulated depreciation	<u>9,886</u>	<u>8,862</u>
	<u>14,250</u>	<u>11,911</u>
	<u>\$55,635</u>	<u>\$48,444</u>

On behalf of the Board

W. M. Sobey

W.M. Sobey Director

David F. Sobey

David F. Sobey Director



Personal service — attending to special needs

Liabilities

	1979	1978
	(In Thousands)	
Current		
Bank loans (Note 2)	\$ 3,654	\$ 1,847
Bankers acceptances	2,500	4,500
Accounts payable and accrued charges	23,894	19,268
Income taxes payable	438	133
Long term debt due within one year	217	217
Current portion of deferred income taxes	501	290
	<u>31,204</u>	<u>26,255</u>
Long term debt (Note 3)	<u>7,352</u>	<u>7,272</u>
Minority interest	<u>497</u>	<u>454</u>
Deferred income taxes	<u>1,165</u>	<u>641</u>

Shareholders' Equity

Capital stock (Note 4)	3,616	3,663
Capital redemption reserve fund	56	9
Retained earnings	11,745	10,150
	<u>15,417</u>	<u>13,822</u>
	<u>\$55,635</u>	<u>\$48,444</u>

Auditors' Report

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 5, 1979, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the company as at May 5, 1979, and the results of its operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. L. Moore and Company

Chartered Accountants

New Glasgow, Nova Scotia
June 15, 1979

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 5, 1979

1. Accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

The equity method of accounting is used for investments in joint venture companies and in a company in which less than 51% of the voting shares are held.

Depreciation and amortization

Depreciation of buildings and equipment is calculated by the straight line method. The rates used are estimated to be sufficient to depreciate the cost of the assets to residual value over their useful lives which ranges from three to forty years.

Leasehold improvements are amortized over the term of the related lease for improvements prior to May 3, 1975, and for a term not greater than fifteen years for improvements subsequent to that date.

Marketable securities

Marketable securities are recorded at cost (quoted market value \$19,518,000; 1978 \$12,512,000).

Inventories

Inventories are valued at the lower of cost and net realizable value.

2. Bank loans

Bank loans are secured by assignments of certain receivables and marketable securities, and a specific mortgage and first floating

charge debenture against assets of a subsidiary company.

3. Long term debt

Sinking fund debentures

Series	Rate	Maturity	1979	1978
E	6%	March 1, 1981	\$ 460,000	\$ 490,000
F	6%	April 1, 1984	550,000	580,000
G	5 ³ / ₄ %	April 15, 1985	290,000	305,000
H	6%	November 1, 1985	610,000	640,000
I	7 ¹ / ₄ %	June 15, 1987	670,000	700,000
J	8 ¹ / ₂ %	March 1, 1989	700,000	730,000
K	10 ¹ / ₂ %	September 30, 1997	2,910,000	3,000,000
			6,190,000	6,445,000
Less: Debentures held for sinking fund purposes			207,545	195,599
			5,982,455	6,249,401
<i>Mortgages</i>				
10 ³ / ₄ % maturing in 1980 (amortized to 1995) and in 1989			864,821	659,599
<i>Term bank loan maturing in 1982 with interest at a rate fluctuating with the prime rate</i>			721,387	580,000
			7,568,663	7,489,000
<i>Current maturities (less debentures held for sinking fund purposes)</i>			217,034	216,761
			\$7,351,629	\$7,272,239

The sinking fund debentures and mortgages are secured by land and buildings. Annual debt repayment in the next five years is:

1980 — \$358,734	1981 — \$761,796	1982 — \$835,051
1983 — \$265,313	1984 — \$669,622	

Annual debt repayments do not include the mortgage of \$644,821 maturing in 1980 as it is anticipated that this mortgage will be renewed at that date.

Capital stock

Authorized

237,231 cumulative redeemable non-voting preference shares of \$20 par value each, issuable in series

750,000 Class "A" non-voting common share without nominal or par value

500,000 Class "B" voting common shares without nominal or par value

Issued and outstanding

59,461 6 $\frac{1}{4}$ % preference shares, 1966 series

520,862 Class "A" common shares

254,000 Class "B" common shares

1979 1978

\$1,189,220 \$1,235,720

1,739,862 1,739,862

687,200 687,200

\$3,616,282 \$3,662,782

4. Shareholders' equity

The 1966 series preference shares may be called at par at any time and the company is required to provide a \$30,000 fund each year from which shares may be purchased for redemption.

Long term leases

The annual minimum lease payments under agreements extending beyond five years from the balance sheet date approximates \$5,600,000.

Contingent liabilities

The company has undertaken by separate agreements to provide cash to meet any obligations which Canadian Shopping Centres Limited and Sobey Leased Properties Limited are unable or fail to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be by purchase of fully paid non-assessable 6% redeemable, non-voting preference shares of

the applicable company. The aggregate outstanding principal amounts of these debentures is \$2,915,000.

The company is contingently liable as guarantor of loans amounting to \$2,300,000. As at May 5, 1979, outstanding loans supported by these guarantees amounted to \$2,250,000.

The company has agreed to acquire up to 45,000 of the outstanding cumulative, redeemable, non-voting, \$100 par value preferred shares of a related company in the event that the issuer fails to redeem 15,000 shares on January 26, 1983, and 30,000 shares on November 15, 1988 or under certain circumstances at an earlier date provided for in the subscription agreements.

5. Commitments and contingencies

The accounts for the previous year have been reclassified, where necessary, to conform with the current year's presentation.

6. Financial statement presentation

The need in the market place for a low price, no frills image in food merchandising resulted in the opening of units operating under this format in the Ontario market. The need and opportunity was also apparent in our market and as a result the Lofood division was established with the opening of a single unit in Halifax.

The Lofood concept concentrates on limited variety grocery and produce merchandising with limited service features. Expansion of this division will be dependent upon the success of the initial test locations.



Quality, variety and freshness in produce merchandising



Lofood store, Halifax

We remain committed to reinvestment in the Company through a planned program of modernization and expansion of older stores and construction of new stores with forecast expenditures in excess of \$4 million now underway.

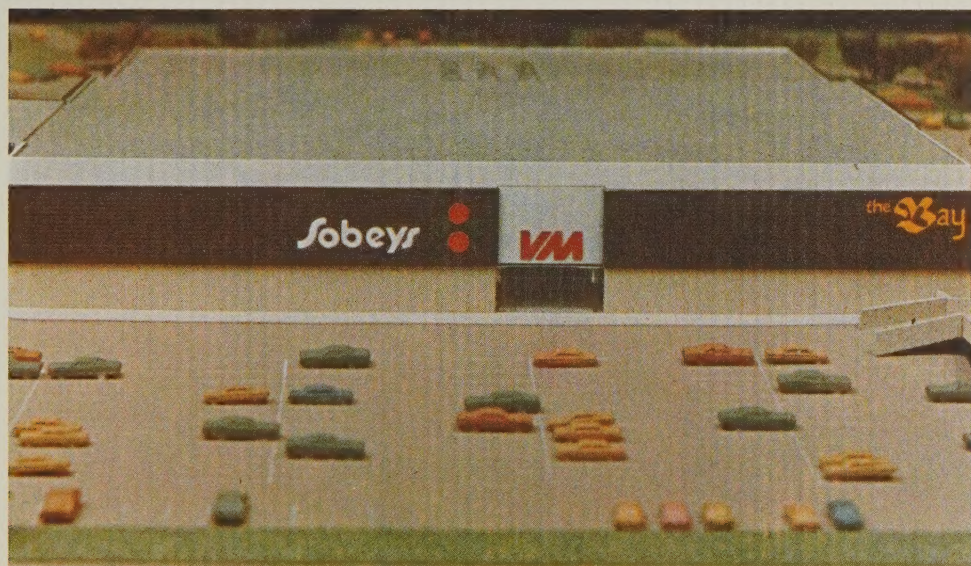
Currently in process and planned to commence during the 1980 year are five new retail stores and renovations of five older stores. The Lofood division plans three additions during the year and the fast food division will add two units.

The expansion of operations in Newfoundland opens many opportunities for growth for the wholesale division, and the prospects in other market areas are encouraging.

Aggressive competition and price inflation is expected to continue throughout the fiscal year. This requires increased emphasis on the efficiency of all facets of our operations and constant earnings growth to help finance the expenditures necessary to improve our position in the market place. The strength of our financial position provides the foundation from which we will grow and prosper in the future.



One of several in-store bakeries



Model of proposed new location

DIRECTORS

Merritt G. Crawford
New Glasgow, Nova Scotia

William G. Lumsden
Burlington, Ontario

Arthur R. Lundrigan
Corner Brook, Newfoundland

J. Skiffington Murchie
New Glasgow, Nova Scotia

Henry B. Rhude
Halifax, Nova Scotia

J. William Ritchie
Halifax, Nova Scotia

David F. Sobey
New Glasgow, Nova Scotia

Donald R. Sobey
Stellarton, Nova Scotia

Frank H. Sobey
Abercrombie, Nova Scotia

William M. Sobey
King's Head, Nova Scotia

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OFFICERS

Frank H. Sobey
Honorary Chairman

William M. Sobey
Chairman and Chief Executive Officer

David F. Sobey
President

J. Skiffington Murchie
Executive Vice-President

D. B. Eddy
Vice-President Personnel

Frank J. Hickey
Vice-President Merchandising

Nigel F. Byars
Vice-President Finance, Treasurer

J. Robert MacMillan
Secretary

AUDITORS

H.R. Doane and Company

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal — Toronto
Saint John — Halifax

BANKERS

The Bank of Nova Scotia

